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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S APPLICATION FOR A) CASE NO. IPC-E-13-16
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY FOR THE INVESTMENT IN)
SELECTIVE CATALYTIC REDUCTION)
CONTROLS ON JIM BRIDGER UNITS 3 AND 4.)

DIRECT TESTIMONY AND EXHIBIT OF
DR. DON READING
ON BEHALF OF
INDUSTRIAL CUSTOMERS OF IDAHO POWER

OCTOBER 11, 2013

1 INTRODUCTION
2

3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Don Reading and my business address is Ben Johnson Associates, 6070 Hill
5 Road, Boise, Idaho. I am Vice President and Consulting Economist for Ben Johnson
6 Associates.

7 Q. HAVE YOU PREPARED AN EXHIBIT OUTLINING YOUR QUALIFICATIONS
8 AND BACKGROUND?

9 A. Yes. Exhibit 201 serves that purpose.

10 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

11 A. I have been retained by the Industrial Customers of Idaho Power ("ICIP") to review
12 Idaho Power's ("IPC" or the "Company") application for a certificate of public
13 convenience and necessity for investments in selective catalytic reduction controls
14 ("SCR") on Jim Bridger units 3 and 4. I address the imprudence of this Commission's
15 locking in a ratemaking treatment for this proposed investment such that future
16 commissions will effectively have their hands tied as to other, at the time, prudent
17 ratemaking decisions. I discuss the uncertain future of coal plant investments. While
18 not advocating the outright denial of the company's application, I urge the Commission
19 to proceed with great caution as to how it signals the future ratemaking treatment of this
20 investment.

21 **Certificate of Public Convenience and Necessity**

22 Q. DR. READING, COULD YOU BRIEFLY REVIEW WHAT IDAHO POWER'S
23 REQUEST IS IN THE CURRENT DOCKET?

1 A. Yes. The Company is asking for a Certificate of Public Convenience and Necessity
2 (“CPCN”) for the installation of selective catalytic reduction systems for Jim Bridger
3 units 3 and 4 to reduce nitrogen oxide (“NOx”) emissions to comply with existing state
4 and proposed federal emission requirements. The Company expects the amount of this
5 investment to be \$129.8 million for both units, and it is asking the Commission to accept
6 this amount as a “Commitment Estimate”.

7 **Q. HOW DOES THE COMPANY DEFINE ITS “COMMITMENT ESTIMATE”?**

8 A. According to Idaho Power’s Application in this docket:

9 As it has done in prior CPCN applications, Idaho Power has termed this estimate
10 a “Commitment Estimate.” The Commitment Estimate is a good faith estimate of
11 Idaho Power’s total capital cost, including AFUDC, and additional costs the
12 Company anticipates it will incur but cannot quantify with precision at this time.¹

13 However the \$129.8 million “Commitment Estimate” may or may not be the eventual
14 investment requested by Idaho Power in future rate proceedings.

15 **Q. DO YOU ASSUME THE COMPANY WILL ASK FOR RATE RELIEF FOR ITS**
16 **SCR INVESTMENTS IN THE NEXT GENERAL RATE CASE?**

17 A. At this point, when Idaho Power will ask the Commission to approve ratebase treatment
18 for the Bridger pollution control investments, is uncertain. In its response to an ICIP
19 production request the Company stated, “The Company has not determined the approach
20 by which future cost recovery will be requested.”² Therefore it may be in a general rate
21 case or possibly in some other type of filing by Idaho Power

¹ Idaho Power Application, IPC-E-13-16, Item 16, p 7.

² Idaho Power Response to ICIP’s First Production Request No. 3-C.

1 Q. ARE YOU SAYING, FOR WANT OF A BETTER TERM, THE COMPANY IS
2 NOT ASKING FOR THE \$129.8 MILLION BE A HARD COMMITMENT,
3 RATHER A SOFT COMMITMENT, WHERE IT MAY WELL ASK FOR MORE
4 THAN THIS AMOUNT SHOULD THE COSTS EXCEED ITS ESTIMATE ?

5 A. That appears to be true. According to the Company's testimony:

6 If binding ratemaking is approved for the Total Commitment Estimate of
7 \$129,837,393, the Company could be assured that amounts incurred up to the
8 Commitment Estimate amount would be determined to be prudent. Should the
9 cost of the Project be less than the Commitment Estimate, the savings would
10 directly benefit the customer through a lower amount in rate base. On the other
11 hand, should the Project come in over the Commitment Estimate, Idaho Power
12 would have to demonstrate to the Commission that amounts above the
13 Commitment Estimate were prudently incurred and should be recovered in rates. ³

14 Therefore, Idaho Power is stating the Commission may need to engage in additional
15 examination of the prudence of the pollution control investment for Bridger 3 and 4
16 sometime in the future. The Company will be asking that its proposed investment in SCR
17 equipment be put into rates at some future time. When that happens, it will then be the
18 time to examine the prudence of the total investment. A review of part of the investment
19 in this docket and part of the investment at a later unspecified time is simply not prudent.

20 Q. IS THE COMMISSION REQUIRED TO IMPLEMENT PRE-APPROVAL OF
21 THE INVESTMENT IF THE COMPANY REQUESTS SUCH TREATMENT?

22 A. No. Idaho Code Section 61-541 states:

³ Direct Testimony of Idaho Power Witness Mike Youngblood, IPC-E-13-16, p. 17.

1 Based upon the hearing record, the commission shall issue an order that addresses
2 the proposed ratemaking treatments. The commission may accept, deny or
3 modify a proposed ratemaking treatment requested by the utility. In determining
4 the proposed ratemaking treatments, the commission shall maintain a fair, just and
5 reasonable balance of interests between the requesting utility and the utility's
6 ratepayers.⁴

7 Therefore, the Commission can approve the requested CPCN without pre-approving the
8 requested "Commitment Estimate" of \$128.9 million. The examination of the prudence
9 of the SCR emission investments would then take place at the time the Company requests
10 it to be placed into rates.

11 **Q. DID THE COMPANY NEED TO REQUEST THE COMMISSION ISSUE A CPCN**
12 **BEFORE IT WOULD BE ALLOWED TO INVEST IN THE SCR's FOR**
13 **BRIDGER 3 AND 4?**

14 **A.** No. In fact Idaho Power is installing pollution control equipment at its Northern Nevada
15 Valmy coal plant without first requesting a CPCN for those investments. As Idaho
16 Power witness Grow stated:

17 **Q. ARE EMISSION CONTROL INVESTMENTS AT VALMY PART OF THE**
18 **COMPANY'S CURRENT CPCN APPLICATION?**

19 **A.** No. While the Valmy plant is not a part of the Company's request for a CPCN for
20 the SCR investments at Jim Bridger Units 3 and 4, the Nevada legislation
21 associated with NV Energy's announcement is yet another indication of the

⁴ *Idaho Code* § 61-541(4)

1 changing climate with regard to coal-fired generation.⁵

2 Witness Grow was referring to the announcement by the Company's partner in the
3 Valmy Plant, NV Energy, of its intent to remove coal from its generation portfolio. It
4 was Idaho Power's choice to ask this Commission for a CPCN for Bridger Units 3 and 4.

5 **Q. WHY DID IDAHO POWER CHOOSE TO ASK FOR A CPCN AT THIS TIME?**

6 **A.** According to Idaho Power:

7 The Company is requesting a CPCN and binding ratemaking treatment under
8 *Idaho Code* § 61-541 for the SCR investment because of the magnitude of the
9 investment, the uncertainty surrounding coal-fired generation in today's political
10 and social environment, and the amount of interest expressed by stakeholders.

11 With the magnitude of the investment and the changing climate for investments in
12 coal-fired generation, the Company has chosen to request a CPCN even though it
13 does not believe it is required to do so by *Idaho Code* § 61-526. In this way, a
14 public process is initiated to provide the Company, Commission, and interested
15 parties a regulatory forum to fully vet these contested issues.⁶

16 Idaho Power asserts that by filing for a CPCN the Company would be able to use *Idaho*
17 *Code* section 61-541 in asking the Commission for pre-approval of its pollution control
18 investments for Bridger. Idaho Power states by doing so it will provide for a regulatory
19 forum to fully vet the prudence of its investment. However what the Company does not
20 say, is that a full vetting of the contested issues, could equally occur at the time it
21 requests the investments be included in rates. There is no compelling reason the

⁵ Direct testimony of Idaho Power witness Grow, IPC-E-13-16 at p 19.

⁶ *Ibid*, p. 15.

1 Commission needs to bind itself or future Commissions with these investments at this
2 time.

3 **Q. THE COMPANY APPEARS TO BE SEEKING TO REDUCE INVESTMENT**
4 **RISK GIVEN THE “CHANGING CLIMATE FOR INVESTMENTS IN COAL-**
5 **FIRED GENERATION” BY ASKING FOR PRE-APPROVAL FOR ITS COAL**
6 **PLANT POLLUTION CONTROL INVESTMENTS. DO YOU THINK THIS IS A**
7 **RATIONAL STRATEGY FOR THE COMPANY TO FOLLOW?**

8 A. From the shareholders perspective yes; however it is not rational from the perspective of
9 the ratepayer. Idaho Power, like all other regulated utilities, is allowed the opportunity to
10 earn a return on its investments. The Commission sets the utility’s return on equity
11 (ROE) in a general rate case setting. The ROE is designed to, among other things,
12 compensate Idaho Power’s shareholders for the risk they take by investing in the
13 Company. The Commission sets the level of the Company’s ROE so that it is high
14 enough to attract investors who are in the market evaluating their investment
15 opportunities compared to other places they could invest their funds. The Commission
16 also considers a level of ROE low enough that the regulated monopoly cannot take
17 advantage of its captive ratepayers.

18 Idaho Power currently enjoys a Power Cost Adjustment (PCA) that recovers its
19 net power supply costs on an annual basis. It also enjoys a Fixed Cost Adjustment (FCA)
20 for residential and small commercial customers that compensate it for some of the fixed
21 investments that are impacted by declines in loads outside of a general rate case. The
22 PCA significantly reduces risks to the Company for changes in a major part on their
23 variable cost. The PCA essentially holds Idaho Power harmless from the vagaries of the

1 volatile wholesale market. In addition, the FCA reduces risks for some of their
2 investments in plant on an annual basis. As noted, the return on equity for the utility is
3 determined in a general rate case. Also the amount of plant that is included in ratebase is
4 likewise determined in a general rate case. The two need to be considered in tandem.
5 Pre-approving the SCR Bridger investments at this time would not allow the Commission
6 to fully weigh the investment and the ROE together. If the Commission were to pre-
7 approve these investments it should, at a minimum, take this binding commitment into
8 account and adjust the ROE level of downward accordingly.

9 **Q. ARE THERE OTHER CONSIDERATIONS THE COMMISSION SHOULD**
10 **TAKE INTO ACCOUNT IN DETERMINING WHETHER TO GRANT PRE-**
11 **APPROVAL FOR THE SCR INVESTMENTS IN BRIDGER UNITS 3 AND 4?**

12 Yes. The Company indicates it will need additional investments in pollution control
13 installations for Bridger units 1 and 2 in 2022 and 2021.⁷ These expected emission
14 compliance costs are based on current regulations and therefore the decision before the
15 Commission should not be looked at in isolation from the other already-on the-drawing-
16 boards future pollution control expenditures. Granting pre-approval can tend to establish
17 precedent for future filings by the Company. It would be good regulatory policy to
18 evaluate the level of these expenditures at the time Idaho Power asks them to be included
19 in rates.

20 The Company's coal studies indicate, in present value terms, the SCR
21 installations at Bridger are the lowest cost path. However, under the "Low Gas/High
22 Carbon" scenario it is not the lowest cost path. Under that scenario the lowest cost path

⁷ Investor Meeting Power Point, San Francisco, September 25, 2013.

1 is to convert the units to natural gas rather than install the SCRs.⁸ As an economist, I
2 have learned the only thing true about economic forecasts is that they are not very good
3 about accurately predicting the future.⁹ No one is prescient. It is possible the low
4 gas/high carbon scenario will come to fruition. Other scenarios could play out, even in
5 the near term, that makes the SCR option uneconomic. One likely scenario that could
6 impact the prudence of the SCR investment are tighter environmental requirements. The
7 Commission should avoid locking itself in and locking in all future Commissions with
8 these expenditures by pre-approving them in this proceeding

9 **Q. IS THE ICIP OPPOSING THE ISSUANCE OF A CPCN FOR BRIDGER UNITS 3**
10 **AND 4 AT THIS TIME?**

11 A. No. However, we are asking the Commission to not pre-approve the requested
12 expenditures. For the reasons stated above we believe it is bad regulatory policy for such
13 pre-approval and will deny the Commission and intervenors the opportunity to examine
14 the reasonableness of the expected expenditures when the Company asks that they be
15 placed into rates.

16 **Q. DO YOU HAVE ANY THOUGHTS ON THE APPROPRIATE RATEMAKING**
17 **TREATMENT IF THE COMMISSION DOES CHOOSE TO GO DOWN THE**
18 **PRE-APPROVAL PATH?**

19 Yes. Reference my testimony earlier on risk and rate of return. Should the Commission
20 go down that path, which I strongly oppose, I recommend this \$129.8 million investment

⁸ Idaho Power Coal Unit Environmental Analysis for the Jim Bridger and North Valmy Coal-Fired Plants, 2011 IRP Update, p. 15.

⁹ When I was an in-house economist for this very Commission, one of the Commissioner's I worked for was fond of saying that an economic forecast is like a broken clock: it is right twice a day whether it meant to or not.

1 Yes. Reference my testimony earlier on risk and rate of return. Should the Commission
2 go down that path, which I strongly oppose, I recommend this \$129.8 million investment
3 be placed into rate base, at the appropriate time, and be allowed to earn a fraction of the
4 Company's overall rate of return. The Company's overall rate of return assumes much
5 riskier investments than one with regulatory pre-approval that ties the hands of future
6 commissions from questioning the prudence of this investment. Such favored regulatory
7 treatment surely does not carry the same risk as standard investments that must wait until
8 they are in the ground/used and useful and proven prudent after the fact.

9 **Q. DOES THIS END YOUR- TESTIMONY AS OF OCTOBER 11, 2013?**

10 A. Yes.

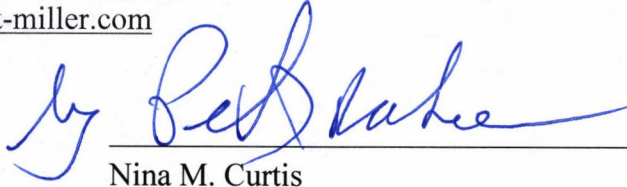
1 I hereby certify that on the 11th day of October, 2013, I served the foregoing DIRECT
2 TESTIMONY OF DR. DON READING in Case NO. IPC-E-13-16 to the following via
3 electronic mail.
4

5
6 Idaho Power Company
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21 
22 _____
Nina M. Curtis

	Don C. Reading
<i>Present position</i>	Vice President and Consulting Economist
<i>Education</i>	B.S., Economics C Utah State University M.S., Economics C University of Oregon Ph.D., Economics C Utah State University

<i>Honors and Awards</i>	Omicron Delta Epsilon, NSF Fellowship
<i>Professional and Business History</i>	Ben Johnson Associates, Inc.: 1989 — Vice President 1986 — Consulting Economist Idaho Public Utilities Commission: 1981-86 Economist/Director of Policy and Administration Teaching: 1980-81 Associate Professor, University of Hawaii-Hilo 1970-80 Associate and Assistant Professor, Idaho State University 1968-70 Assistant Professor, Middle Tennessee State University
<i>Firm Experience</i>	Dr. Reading provides expert testimony concerning economic and regulatory issues. He has testified on more than 45 occasions before utility regulatory commissions in Alaska, California, Colorado, the District of Columbia, Hawaii, Idaho, Nevada, North Dakota, North Carolina, Oregon, Texas, Utah, Wyoming, and Washington. Dr. Reading has more than 30 years experience in the field of economics. He has participated in the development of indices reflecting economic trends, GNP growth rates, foreign exchange markets, the money supply, stock market levels, and inflation. He has analyzed such public policy issues as the minimum wage, federal spending and taxation, and import/export balances. Dr. Reading is one of four economists providing yearly forecasts of statewide personal income to the State of Idaho for purposes of establishing state personal income tax rates. In the field of telecommunications, Dr. Reading has provided expert testimony on the issues of marginal cost, price elasticity, and measured service. Dr. Reading prepared a state-specific study of the price elasticity of demand for local telephone service in Idaho and recently conducted research for, and directed the preparation of, a report to the Idaho legislature regarding the status of telecommunications competition in that state.

	<p>Dr. Reading's areas of expertise in the field of electric power include demand forecasting, long-range planning, price elasticity, marginal and average cost pricing, production-simulation modeling, and econometric modeling. Among his recent cases was an electric rate design analysis for the Industrial Customers of Idaho Power. Dr. Reading is currently a consultant to the Idaho Legislature=s Committee on Electric Restructuring.</p> <p>Since 1999 Dr. Reading has been affiliated with the Climate Impact Group (CIG) at the University of Washington. His work with the CIG has involved an analysis of the impact of Global Warming on the hydro facilities on the Snake River. It also includes an investigation into water markets in the Northwest and Florida. In addition he has analyzed the economics of snowmaking for ski area's impacted by Global Warming.</p> <p>Among Dr. Reading's recent projects are a FERC hydropower relicensing study (for the Skokomish Indian Tribe) and an analysis of Northern States Power's North Dakota rate design proposals affecting large industrial customers (for J.R. Simplot Company). Dr. Reading has also performed analysis for the Idaho Governor's Office of the impact on the Northwest Power Grid of various plans to increase salmon runs in the Columbia River Basin.</p> <p>Dr. Reading has prepared econometric forecasts for the Southeast Idaho Council of Governments and the Revenue Projection Committee of the Idaho State Legislature. He has also been a member of several Northwest Power Planning Council Statistical Advisory Committees and was vice chairman of the Governor's Economic Research Council in Idaho. He is currently a Public Works Commissioner for the City of Boise.</p> <p>While at Idaho State University, Dr. Reading performed demographic studies using a cohort/survival model and several economic impact studies using input/output analysis. He has also provided expert testimony in cases concerning loss of income resulting from wrongful death, injury, or employment discrimination. He is currently a adjunct professor of economics at Boise State University (Idaho economic history, urban/regional economics and labor economic.)</p> <p>Dr. Reading has recently completed a public interest water rights transfer case. He has also just completed an economic impact analysis of the 2001 salmon season in Idaho.</p>

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<i>Publications</i>	<p>"Energizing Idaho", Idaho Issues Online, Boise State University, Fall 2006. www.boisestate.edu/history/issuesonline/fall2006_issues/index.html</p> <p>The Economic Impact of the 2001 Salmon Season In Idaho, Idaho Fish and Wildlife Foundation, April 2003.</p> <p>The Economic Impact of a Restored Salmon Fishery in Idaho, Idaho Fish and Wildlife Foundation, April, 1999.</p> <p>The Economic Impact of Steelhead Fishing and the Return of Salmon Fishing in Idaho, Idaho Fish and Wildlife Foundation, September, 1997.</p> <p>ACost Savings from Nuclear Resources Reform: An Econometric Model@ (with E. Ray Canterbury and Ben Johnson) <i>Southern Economic Journal</i>, Spring 1996.</p> <p>A Visitor Analysis for a Birds of Prey Public Attraction, Peregrine Fund, Inc., November, 1988.</p> <p>Investigation of a Capitalization Rate for Idaho Hydroelectric Projects, Idaho State Tax Commission, June, 1988.</p> <p>"Post-PURPA Views," In Proceedings of the NARUC Biennial Regulatory Conference, 1983.</p> <p>An Input-Output Analysis of the Impact from Proposed Mining in the Challis Area (with R. Davies). Public Policy Research Center, Idaho State University, February 1980.</p> <p><i>Phosphate and Southeast: A Socio Economic Analysis</i> (with J. Eyre, et al). Government Research Institute of Idaho State University and the Southeast Idaho Council of Governments, August 1975.</p> <p><i>Estimating General Fund Revenues of the State of Idaho</i> (with S. Ghazanfar and D. Holley). Center for Business and Economic Research, Boise State University, June 1975.</p> <p>"A Note on the Distribution of Federal Expenditures: An Interstate</p>
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	<p>Comparison, 1933-1939 and 1961-1965." In <i>The American Economist</i>, Vol. XVIII, No. 2 (Fall 1974), pp. 125-128.</p> <p>"New Deal Activity and the States, 1933-1939." In <i>Journal of Economic History</i>, Vol. XXXIII, December 1973, pp. 792-810.</p>
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